



Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE

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Baucus Urges House to Immediately Pass Military Tax Relief Bill; Sends Letter to Treasury Department Encouraging Crack Down on Expatriates

(WASHINGTON, D.C.) U.S. Senator Max Baucus once again urged the U.S. House of Representatives to immediately pass the "Armed Forces Tax Fairness Act of 2003", which will provide tax relief to members of the military.

"While the military conflict in Iraq is coming to a close, there is still the urgent need to pass this important military tax legislation and lift the burden of unnecessary taxes from the shoulders of our armed forces," Baucus said. "The Senate passed this bill more than a month ago and now it's time for the House to step up to the plate. It's the least we can do for our brave men and women who put their lives on the line for our country."

The Senate version of the Armed Forces Tax Fairness Act includes a provision that will help pay for the bill by improving the collection of unpaid taxes from people who have renounced their American citizenship in order to avoid U.S. taxes.

Baucus was joined by Chairman Chuck Grassley in sending a letter to Treasury Secretary John Snow highlighting their concerns with the current lack of enforcement of tax rules for American expatriates.

"We are writing to bring to your attention a matter of mutual concern involving taxpayers who relinquish their U.S. citizenship and long-term resident status with the purpose of avoiding U.S. taxes," Sens. Baucus and Grassley stated in the letter. "In a study published in 2003, the Joint Committee on Taxation (JCT) concluded that there is virtually no enforcement of the special tax and immigration rules applicable to tax-motivated citizenship relinquishment and residency termination. Further, a study conducted by the GAO in 2000 concluded that the IRS does not yet have a systematic compliance effort in place to enforce the present law alternative tax regime."

Baucus and Grassley requested in the letter that the IRS "provide data on the number of expatriates subject to the alternative tax regime and how much revenue has been collected by the IRS under the alternative tax regime since 1996."

The expatriation provisions included in the Armed Forces Tax Fairness Act would require that Americans who renounces their citizenship pay taxes on all assets *prior* to leaving the country.

"It's just common sense to tax those who are giving up their citizenship before they leave the country," Baucus said. "By definition, an expatriate has little intent to return to America and will have little incentive on paying any taxes owed to America once they've left the country. It is a bit of poetic justice to pay for a bill that will provide the men and women who protect our country with tax relief with taxes from those people who have given up rights to our country. I urge swift final passage of this important bill."

-- Text of Letter to Secretary Snow Follows --

May 2, 2003

The Honorable John Snow
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Snow:

We are writing to bring to your attention a matter of mutual concern involving taxpayers who relinquish their U.S. citizenship and long-term resident status with the purpose of avoiding U.S. taxes. In 1966, Congress enacted special rules to determine the appropriate tax treatment for those who renounce their U.S. citizenship for tax avoidance purposes. Under the alternative tax regime, former citizens are subject to an alternative method of income taxation for 10 years following citizenship relinquishment.

In 1996, several extensive changes were made to the alternative tax regime as part of the Health Insurance Portability and Accountability Act. These changes followed press reports and Congressional hearings indicating that a small number of very wealthy individuals had relinquished their U.S. citizenship to avoid U.S. income, estate, and gift taxes, while nevertheless maintaining significant contacts with the United States. The 1996 Act also extended the revised alternative regime to long-term residents and added an immigration provision which denies re-entries into the U.S. for individuals if the Attorney General determines that they renounced their citizenship for tax motivated reasons.

In a study published in 2003, the Joint Committee on Taxation (JCT) concluded that there is virtually no enforcement of the special tax and immigration rules applicable to tax-motivated citizenship relinquishment and residency termination. Further, a study conducted by the GAO in 2000 concluded that the IRS does not yet have a systematic compliance effort in place to enforce the present law alternative tax regime. Based on the GAO and JCT staff review, since that time, the IRS generally has ceased all compliance efforts directly relating to the income, estate, and gift tax obligations of former citizens and former long-term residents under the alternative tax regime. The only enforcement effort by the IRS is to publish the names of individuals who have filed a Certificate of Loss of Nationality (CLN) in the Federal Register. It is our understanding that the INS and the Department of State have not denied re-entries into the United States to a single former U.S. citizen or long-term resident under the 1996 tax avoidance immigration rule. Moreover, the GAO stated in its 2000 report that the IRS has never pursued an audit or otherwise examined those former citizens or former long-term residents who were determined in the ruling process to have a principle purpose of tax avoidance.

According to the JCT, monitoring the activities of individuals who no longer reside in the United States is inherently difficult, and that the need to do so poses serious challenges in enforcing these rules. We understand that under the present regime an expatriate could wait until the 10-year period expires before he or she disposes of U.S. property or hold foreign assets to avoid taxation altogether. An expatriate could also borrow against these assets and have access to additional capital while avoiding taxation under the special expatriation rules.

We are requesting that you provide data on the number of expatriates subject to the alternative tax regime and how much revenue has been collected by the IRS under the alternative tax regime since 1996. Please provide this information on a year by year basis. We are also interested in the Department of the Treasury's views on whether former citizens and former long-term residents are complying with the regime, whether any compliance problems can be adequately addressed by JCT's recommendations, or whether more fundamental reform, such as a mark-to-market approach as approved by the United States Senate as part of the *Armed Forces Tax Fairness Act of 2003*,⁶ would be more effective.

Our interest is to ensure that those who pay their fair share on income they earn within the United States are not taken advantage of by those who renounce their U.S. citizenship or long-term residency. When expatriates avoid or evade their share of taxes, it falls on everyday Americans to make-up the short fall. This is not acceptable. We appreciate your prompt attention to this matter and look forward to receiving your response.

Sincerely yours,

Max Baucus
Ranking Member

Charles E. Grassley
Chairman